

CITY OF ELLIJAY, GEORGIA

FINANCIAL REPORT

For the Year Ended December 31, 2009

CITY OF ELLIJAY, GEORGIA
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December 31, 2009

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Al Hoyle, Mayor
and Members of City Council
City of Ellijay, Georgia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Ellijay, Georgia, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Ellijay, Georgia's management. Our responsibility is to express opinions on these financial statements based on our audit.

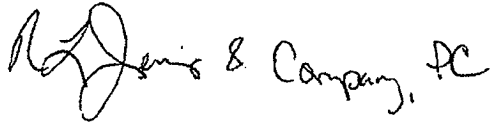
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ellijay, Georgia, as of December 31, 2009, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010, on our consideration of the City of Ellijay, Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ellijay, Georgia's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Projects Constructed with Special Local Option Sales Tax is presented for purposes of additional analysis as required by Official Code of Georgia section 48-8-121 and is not a required part of the financial statements. The combining nonmajor fund financial statements and the Schedule of Projects Constructed with Special Local Option Sales Tax are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "R. Dennis & Company, PC". The signature is written in a cursive, flowing style.

Ellijay, Georgia
June 30, 2010

CITY OF ELLIJAY, GEORGIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

USING THE AUDIT FOR 2009

The Statement of Net Assets and the Statement of Activities will provide a picture about the activities of the City. Financial Fund Statements will provide a more detailed view of the City's services and the revenue dedicated to provide them.

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. The expenses are listed in the first column with the revenues from that particular program reported to the right. The result is a Net (Expenses)/Revenue report. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues and if it is self-financing through fees or grants.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets begins on page 7. The Statement of Activities begins on page 8. These statements include all assets and liabilities using the accrual basis of accounting. All of the 2009 year revenues and expenses are taken into account regardless of when cash is received or paid. The difference between income received and liabilities incurred will paint a picture of the City's health.

REPORTING THE CITY'S FUNDS

The Fund Financial statements begin on page 9 and provide detailed information about the funds. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

THE CITY AS A WHOLE

Condensed Statement of Net Assets

Table 1 below presents the City's condensed Statement of Net Assets as of December 31, 2009 and 2008. The City does not maintain any business-type activities therefore, only governmental activities are presented.

(continued on next page)

Table 1: Condensed Statement of Net Assets

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u> (restated)	<u>Changes</u>
Assets			
Current and other assets	\$ 1,117,212	\$ 894,100	\$ 223,112
Capital assets	<u>4,504,738</u>	<u>5,384,619</u>	<u>(879,881)</u>
Total Assets	<u>\$ 5,621,950</u>	<u>\$ 6,278,719</u>	<u>\$(656,769)</u>
Liabilities			
Other liabilities	\$ 96,216	\$ 202,505	\$ (106,289)
Long-term liabilities	<u>882,909</u>	<u>880,519</u>	<u>2,390</u>
Total Liabilities	<u>979,125</u>	<u>1,083,024</u>	<u>(103,899)</u>
Net Assets			
Invested in capital assets, net of related debt	3,625,138	4,399,505	(774,367)
Restricted	305,575	132,183	173,392
Unrestricted	<u>712,112</u>	<u>664,007</u>	<u>48,105</u>
Total Net Assets	<u>4,642,825</u>	<u>5,195,695</u>	<u>(552,870)</u>
Total Liab. and Net Assets	<u>\$5,621,950</u>	<u>\$ 6,278,719</u>	<u>\$(656,769)</u>

The restatements to current and other assets and total net assets for 2008 was due to a prior period adjustment to fines receivable which is described further in note 15 to the financial statements.

The largest component of the City's net assets is its investment in capital assets (e.g. land, infrastructure, buildings, equipment, and other), less any related debt outstanding that was needed to acquire or construct the assets. The City uses these capital assets to provide services to the citizens and businesses in the City; consequently, these net assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion of net assets is unrestricted, which can be used to finance government operations.

Condensed Statement of Activities

Table 2 below presents the City's condensed Statement of Activities for the years ended December 31, 2009 and 2008. Over time, increases and decreases in net assets measure whether the City's financial position is improving or deteriorating.

(continued on next page)

Table 2: Condensed Statement of Activities

	Governmental <u>Activities</u> <u>2009</u>	Governmental <u>Activities</u> <u>2008</u>	Changes
Revenues:			
Program revenues:			
Charges for services	\$ 247,067	\$ 205,622	\$ 41,445
Capital grants & contributions	303,357	193,000	110,357
Operating grants & contributions	14,218	-	14,218
General revenues:			
Property taxes	292,945	285,611	7,334
Sales taxes	1,009,851	783,625	226,226
Other revenues and taxes	<u>414,957</u>	<u>573,196</u>	<u>(158,239)</u>
Total Revenues	<u>2,282,395</u>	<u>2,041,054</u>	<u>241,341</u>
Expenses:			
General government	404,466	456,868	(52,402)
Public safety	1,069,197	1,099,122	(29,925)
Public works	1,251,812	281,707	970,105
Culture and recreation	9,589	9,906	(317)
Judicial	17,364	17,811	(447)
Housing and development	34,646	8,750	25,896
Interest on long-term debt	<u>48,191</u>	<u>43,860</u>	<u>4,331</u>
Total Expenses	<u>2,835,265</u>	<u>1,918,024</u>	<u>917,241</u>
Change in net assets	(552,870)	123,030	(675,900)
Beginning net assets, restated	5,195,695	5,218,604	(22,909)
Restatement	-	<u>(145,939)</u>	<u>145,939</u>
Ending net assets	\$ <u>4,642,825</u>	\$ <u>5,195,695</u>	\$ <u>(552,870)</u>

During the year ending December 31, 2009 the net assets of the government activities decreased \$552,870.

Approximately 13% of the City's revenues came from property taxes and approximately 62% came from sales taxes and other revenues and taxes. 11% of the City's revenue was derived from charges for services. The City's expenses cover a range of services with 44% related to public works, 38% related to public safety, and 14% related to general governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows and outflows and the balance of resources available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved, undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the year, the City's governmental funds reported a combined ending fund balance of \$937,441 with \$677,795 reported as unreserved fund balance and the remaining amount of \$259,646 reserved for specific purposes.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the fund balance for the General Fund was \$670,424. None of this amount is reserved. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents 44% of total General Fund

expenditures. The net change in the General Fund's fund balance for the year ended December 31, 2009 was an increase of \$138,947. The primary reason for the increase in fund balance was due to a decrease in current year's expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

During 2009, the City adopted a budget of \$1,922,184 in revenues and expenditures. The City did not revise this budget at any time during the year.

The actual operating revenues of the General Fund were less than budgeted amounts by \$138,618. The major factors contributing to this decrease were that actual sales taxes received were \$70,672 less than the budgeted amount of \$1,206,000, which gave a total of \$1,135,328. In addition, actual property tax revenues were \$291,041, compared to a budgeted amount of \$365,573. The factors contributing to the decrease in revenues are mainly attributable to the current downturn in the economy.

The actual operating expenditures of the General Fund were less than budgeted amounts by \$387,226. The primary cause for this was due to the fact that actual expenditures for public works were \$145,481 and for public safety were \$970,218, compared to budgeted amounts of \$393,345 and \$1,070,001 respectively. The variance in public works expenditures was primarily due to some expenditures being allocated to the SPLOST Fund. Public safety expenditures were less than budgeted due to the City choosing not to make some capital purchases that had been previously budgeted.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

At December 31, 2009, the City reported \$4,504,738 in capital assets for governmental activities. Major capital asset transactions during the year included the completed construction of sewer lines that will be operating under the Ellijay-Gilmer City Water and Sewer Authority. Refer to Note 4 to the financial statements for additional information on capital assets.

At December 31, 2009, the City reported long-term debt of \$882,909. This debt includes capital leases being repaid for the purchase of police cars, a fire truck and a capital lease obtained for the public safety building. Refer to Note 8 to the financial statements for additional information on long-term debt.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact:

City of Ellijay
197 North Main Street
Ellijay, Georgia 30540
Telephone: 706-634-4711

BASIC FINANCIAL STATEMENTS

CITY OF ELLIJAY, GEORGIA
STATEMENT OF NET ASSETS
December 31, 2009

	Governmental Activities
<u>Assets</u>	
Cash	\$ 568,780
Certificates of deposit	90,589
Receivables	299,204
Due from other governments	146,724
Other assets	11,915
Capital assets:	
Nondepreciable capital assets	548,572
Depreciable capital assets, net	3,956,166
Total Assets	<u>\$ 5,621,950</u>
<u>Liabilities and Net Assets</u>	
Liabilities:	
Accounts payable and accrued expenses	\$ 64,711
Deferred revenues	31,505
Long-term Liabilities:	
Due within one year	113,243
Due in more than one year	769,666
Total Liabilities	<u>979,125</u>
Net Assets:	
Invested in capital assets, net of related debt	3,625,138
Restricted for:	
Capital projects	210,915
Other purposes	48,731
Unrestricted	758,041
Total Net Assets	<u>4,642,825</u>
Total Liabilities and Net Assets	<u>\$ 5,621,950</u>

The notes to financial statements are an integral part of this statement.

CITY OF ELLIJAY, GEORGIA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	and Changes in Net Assets
Governmental Activities					
General government	\$ 404,466	\$ 64,171	\$ -	\$ -	\$ (340,295)
Judicial	17,364	-	-	-	(17,364)
Public safety	1,069,197	182,896	14,218	-	(872,083)
Public works	1,251,812	-	-	303,357	(948,455)
Culture and recreation	9,589	-	-	-	(9,589)
Housing and development	34,646	-	-	-	(34,646)
Interest on long-term debt	48,191	-	-	-	(48,191)
Total Governmental Activities	<u>\$ 2,835,265</u>	<u>\$ 247,067</u>	<u>\$ 14,218</u>	<u>\$ 303,357</u>	<u>(2,270,623)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					292,945
Franchise and miscellaneous taxes					279,058
Business taxes					116,886
Sales taxes					1,009,851
Unrestricted investment earnings					9,486
Miscellaneous					9,527
Total general revenues					<u>1,717,753</u>
Change in net assets					(552,870)
Net assets - beginning of year, restated					<u>5,195,695</u>
Net assets - end of year					<u>\$ 4,642,825</u>

The notes to financial statements are an integral part of this statement.

CITY OF ELLIJAY, GEORGIA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009

	General Fund	Capital Projects Fund	SPLOST Fund	Multiple Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash	\$ 219,637	\$ 1,640	\$ 225,831	\$ 34,622	\$ 87,050	\$ 568,780
Certificates of deposit	77,778	-	-	-	12,811	90,589
Taxes receivable, net	217,447	-	-	-	-	217,447
Due from other funds	118,709	-	-	-	801	119,510
Due from other governments	105,010	-	41,715	-	-	146,725
Other receivables	80,421	-	-	750	586	81,757
Prepaid expenses	11,915	-	-	-	-	11,915
Total Assets	<u>\$ 830,917</u>	<u>\$ 1,640</u>	<u>\$ 267,546</u>	<u>\$ 35,372</u>	<u>\$ 101,248</u>	<u>\$ 1,236,723</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 41,794	\$ 2,050	\$ -	\$ -	\$ 3,588	\$ 47,432
Due to other funds	801	33,908	56,631	25,170	3,000	119,510
Deferred revenue	109,244	-	-	14,442	-	123,686
Other accrued expenses	8,654	-	-	-	-	8,654
Total Liabilities	<u>160,493</u>	<u>35,958</u>	<u>56,631</u>	<u>39,612</u>	<u>6,588</u>	<u>299,282</u>
Fund balances:						
Reserved for:						
Capital projects	-	-	210,915	-	-	210,915
Tourism	-	-	-	-	10,337	10,337
Public safety	-	-	-	-	2,932	2,932
Cemetery maintenance	-	-	-	-	35,462	35,462
Unreserved	670,424	(34,318)	-	(4,240)	-	631,866
Unreserved, reported in non-major:						
Special revenue funds	-	-	-	-	45,929	45,929
Total Fund Balances	<u>670,424</u>	<u>(34,318)</u>	<u>210,915</u>	<u>(4,240)</u>	<u>94,660</u>	<u>937,441</u>
Total Liabilities and Fund Balances	<u>\$ 830,917</u>	<u>\$ 1,640</u>	<u>\$ 267,546</u>	<u>\$ 35,372</u>	<u>\$ 101,248</u>	<u>\$ 1,236,723</u>

The notes to financial statements are an integral part of this statement.

CITY OF ELLIJAY, GEORGIA
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 December 31, 2009

Total fund balance, governmental funds	\$	937,441
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		4,504,738
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Certain other long-term assets, such as deferred taxes, are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		92,180
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Some liabilities, are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. These liabilities include the following:

Capital leases	\$	(879,600)	
Compensated absences		(3,309)	
Accrued interest		(8,625)	(891,534)

Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u>4,642,825</u>
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The notes to financial statements are an integral part of this statement.

CITY OF ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2009

	General Fund	Capital Projects Fund	SPLOST Fund	Multiple Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 291,041	\$ -	\$ -	\$ -	\$ -	\$ 291,041
Sales and miscellaneous taxes	1,135,328	-	-	-	7,802	1,143,130
Fees and fines	182,482	-	-	-	-	182,482
Licenses and permits	34,073	-	-	-	-	34,073
Intergovernmental	-	303,357	262,665	14,218	-	580,240
Charges for services	12,340	-	-	-	1,800	14,140
Investment earnings	6,138	283	1,640	417	1,009	9,487
Miscellaneous	5,503	-	-	-	4,024	9,527
Total Revenues	1,666,905	303,640	264,305	14,635	14,635	2,264,120
Expenditures:						
Current:						
General government	374,927	-	-	-	409	375,336
Public safety	917,075	-	-	14,639	1,530	933,244
Public works	145,481	-	-	-	-	145,481
Judicial	16,273	-	-	1,090	-	17,363
Housing and development	28,059	-	-	-	7,272	35,331
Total Current Expenditures	1,481,815	-	-	15,729	9,211	1,506,755
Capital Outlay:						
Public works	-	291,006	121,557	-	-	412,563
Debt Service:						
Principal	40,252	65,264	-	-	-	105,516
Interest	12,891	26,676	-	-	-	39,567
Total Expenditures	1,534,958	382,946	121,557	15,729	9,211	2,064,401
Excess (Deficiency) of Revenues over Expenditures	131,947	(79,306)	142,748	(1,094)	5,424	199,722
Other Financing Sources (Uses):						
Transfers in	7,000	-	-	-	-	7,000
Transfers out	-	-	-	-	(7,000)	(7,000)
Total Other Financing Sources and Uses	7,000	-	-	-	(7,000)	-
Net Change in fund balances	138,947	(79,306)	142,748	(1,094)	(1,576)	199,722
Fund balances - beginning of year, restated	531,477	44,988	68,167	(3,146)	96,236	737,762
Fund balances - end of year	\$ 670,424	\$ (34,318)	\$ 210,915	\$ (4,240)	\$ 94,660	\$ 937,483

The notes to financial statements are an integral part of this statement.

CITY OF ELLIJAY, GEORGIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

Net change in fund balances - total governmental funds:	\$ 199,719
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	
This is the amount by which capital outlays of \$352,704 exceeded depreciation of \$239,727 in the current period.	112,977
Capital assets contributed to others are not reported at the fund financial reporting level but are reported in the Statement of Activities.	(992,858)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	18,274
Governmental funds report capital lease proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of capital lease principal payments during the current period. There were no capital lease proceeds.	105,514
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Accrued compensated absences	12,129
Accrued interest	(8,625)
Change in net assets of governmental activities	<u>\$ (552,870)</u>

The notes to financial statements are an integral part of this statement.

CITY OF ELLIJAY, GEORGIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 365,573	\$ 365,573	\$ 291,041	\$ (74,532)
Sales and miscellaneous taxes	1,206,000	1,206,000	1,135,328	(70,672)
Fees and fines	162,500	162,500	182,482	19,982
Licenses and permits	49,900	49,900	34,073	(15,827)
Charges for services	14,550	14,550	12,340	(2,210)
Investment earnings	5,000	5,000	6,138	1,138
Miscellaneous	2,000	2,000	5,503	3,503
Total Revenues	<u>1,805,523</u>	<u>1,805,523</u>	<u>1,666,905</u>	<u>(138,618)</u>
Expenditures:				
Current:				
General government	404,875	404,875	374,927	(29,948)
Public safety	1,070,001	1,070,001	970,218	(99,783)
Public works	393,345	393,345	145,481	(247,864)
Judicial	23,168	23,168	16,273	(6,895)
Housing and development	30,795	30,795	28,059	(2,736)
Total Expenditures	<u>1,922,184</u>	<u>1,922,184</u>	<u>1,534,958</u>	<u>(387,226)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(116,661)</u>	<u>(116,661)</u>	<u>131,947</u>	<u>248,608</u>
Other Financing Sources (Uses)				
Transfers in	-	-	7,000	7,000
Transfers out	-	-	-	-
Use of excess (addition to) fund balance	<u>116,661</u>	<u>116,661</u>	<u>-</u>	<u>(116,661)</u>
Total Other Financing Sources and Uses	<u>116,661</u>	<u>116,661</u>	<u>7,000</u>	<u>(109,661)</u>
Net Change in Fund Balances	-	-	138,947	138,947
Fund Balances, beginning of year, restated	<u>531,477</u>	<u>531,477</u>	<u>531,477</u>	<u>-</u>
Fund Balances, end of year	<u>\$ 531,477</u>	<u>\$ 531,477</u>	<u>\$ 670,424</u>	<u>\$ 138,947</u>

The notes to financial statements are an integral part of this statement.

CITY OF ELLIJAY, GEORGIA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. SUMMARY OF ACCOUNTING POLICIES

The financial statements of the City of Ellijay, Georgia, ("the City"), have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. THE REPORTING ENTITY

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The City's basic financial statements include the City's accounts of all operations. The criteria for including organizations within the City's reporting entity, as set forth in Governmental Accounting Standards Board's Statement No. 14 (GASB 14), "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. As of December 31, 2009, there are no component units included in the financial statements of the City.

The City of Ellijay Housing Authority is recognized as a related organization of the City in that the City appoints the board members of the Authority. It exists in order to provide housing for low-income individuals that reside in the City limits and meet certain eligibility requirements. Payments in lieu of taxes are made to the City rather than property taxes.

B. BASIS OF PRESENTATION – FUND ACCOUNTING

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into one broad fund and two generic fund types for financial statement presentation purposes. Government funds include the general, special revenue, and capital projects funds.

C. BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements (i.e., the statement of net assets and statement of activities) are prepared using the economic resources measurement focus and the accrual basis of accounting and display information about the reporting government as a whole. The effect of interfund activity has been eliminated from these statements. Transfers between funds reported in the governmental activities column are eliminated. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each governmental program of the City. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that

Notes to Financial Statements (continued)

are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of governments or imposed by law through constitutional provisions or enabling legislation. It is the City's policy to utilize restricted resources, when available for use, before utilizing unrestricted resources.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within sixty days of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax receivables are recorded and deferred until they become available. The City considers revenues to be available if they are collected within sixty days of the end of the fiscal year.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Notes to Financial Statements (continued)

The City reports the following major governmental funds:

General Fund: This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund: This fund accounts for the acquisition of fixed assets or construction of major capital projects, such as Streetscape projects and the CDBG sewer line grant and construction.

SPLOST Fund: This fund accounts for the financial resources provided by the 1% Gilmer County Special Purpose Local Option Sales Tax and expenditures for road and street purposes as called for in the referendum.

Multiple Grant Fund: This fund accounts for grant revenues and expenditures as applicable for various City departments.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

E. CASH AND INVESTMENTS

Cash includes amounts in demand deposits. Statutes authorize the City to invest in U.S. Government obligations, U.S. Government agency obligations, State of Georgia obligations, obligations of other counties, municipal corporations and political subdivisions of the State of Georgia which are rated "AA" or better by Moody's Investors Service, Inc., negotiable certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association, repurchase agreements when collateralized by U.S. Government or agency obligations, and pooled investment programs sponsored by the State of Georgia for the investment of local government funds. The City held no investments, other than certificates of deposit, during the current fiscal year.

F. CAPITAL ASSETS

All assets over the capitalization threshold of \$5,000 with a useful life extending beyond one year are capitalized and depreciated over time using the straight line method. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Buildings	25
Building improvements	20
Vehicles	2-15
Office equipment	3-15
Computer equipment	3-15

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2009 are recorded as prepaid items.

H. COMPENSATED ABSENCES

All full-time employees accumulate vacation benefits in varying annual amounts. On termination and retirement, employees are paid for unused accumulated vacation up to maximum amounts as set by the Mayor and Council. The City's sick leave policy provides for an accumulation of earned sick leave. Sick leave does not vest for retirement or termination purposes. Unused sick leave may be used for long-term illnesses that may occur.

The liability for compensated absences in the government-wide statements consists of unpaid, accumulated annual vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

I. DEFERRED REVENUES

Funds collected in advance for licenses are recorded as revenue in the year for which licenses are valid and deferred in the current year. The deferred portion of property taxes is the portion that is not collectible within sixty days of the fiscal year end.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

2. DEPOSITS

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than Federal and State government instruments) to be collateralized by depository insurance, obligations of the U.S. Government, or bonds of public authorities, counties or municipalities. As of December 31, 2009, the City had no bank balance that was exposed to custodial credit risk.

3. RECEIVABLES

Collection of each year's property taxes by the City is not always completed in the current year. Consequently, current year property taxes receivable are only measurable based on actual collections within sixty days of the fiscal year end at which time the audit is completed. Those current and prior year property taxes that are collected within sixty days of the fiscal year end are susceptible to accrual and therefore are accrued and reflected in revenue. Taxes receivable are shown net of an allowance for doubtful accounts of \$36,444. Collections within sixty days of the fiscal year end are recorded as revenue and those receivables, which are not collected within the specified time period, are shown as deferred revenues on the balance sheet when material. The total current levy for the 2009 property tax digest was \$292,348. The Council has not established a lien date for 2009.

Notes to Financial Statements (continued)

Sanitation fees receivable is included in accounts receivable. No allowance for uncollectible sanitation fees has been calculated due to immateriality.

Fines receivable for the fiscal year ended 2009 totaled \$123,198. An allowance for uncollectible fines of \$54,200 was established resulting in a net receivable of \$68,998 reported on the financial statements.

The City's property tax calendar for both the 2009 real and personal property tax bills was as follows:

Levy date	November 20, 2009
Due date	January 20, 2010
Delinquent date	January 21, 2010

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balances	Additions	Deletions	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 415,068	\$ -	\$ -	\$ 415,068
Construction in Progress	825,221	301,141	(992,858)	133,504
Total capital assets not being depreciated	<u>1,240,289</u>	<u>301,141</u>	<u>(992,858)</u>	<u>548,572</u>
Capital assets being depreciated:				
Infrastructure	1,071,359	51,563	-	1,122,922
Buildings	2,550,141	-	-	2,550,141
Land Improvements	167,619	-	-	167,619
Machinery and equipment	545,825	-	(32,210)	513,615
Vehicles	966,315	-	(21,734)	944,581
Total capital assets being depreciated	<u>5,301,259</u>	<u>51,563</u>	<u>(53,944)</u>	<u>5,298,878</u>
Less accumulated depreciation:				
Infrastructure	(134,926)	(63,419)	-	(198,345)
Buildings	(189,479)	(50,011)	-	(239,490)
Land Improvements	(84,061)	(10,830)	-	(94,891)
Machinery and equipment	(337,750)	(39,896)	32,210	(345,436)
Vehicles	<u>(410,713)</u>	<u>(75,571)</u>	<u>21,734</u>	<u>(464,550)</u>
Total accumulated depreciation	<u>(1,156,929)</u>	<u>(239,727)</u>	<u>53,944</u>	<u>(1,342,712)</u>
Total capital assets being depreciated, net	<u>4,144,330</u>	<u>(188,164)</u>	<u>-</u>	<u>3,956,166</u>
Governmental activities capital assets, net	<u>\$ 5,384,619</u>	<u>\$ 112,977</u>	<u>\$ (992,858)</u>	<u>\$ 4,504,738</u>

Notes to Financial Statements (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 19,178
Public safety	143,836
Public works	67,124
Culture and recreation	<u>9,589</u>
Total	<u>\$ 239,727</u>

5. INTERFUND BALANCES AND ACTIVITY

A. INTERFUND RECEIVABLES/PAYABLES

Balances due to/from other funds at December 31, 2009 consist of the following:

\$ 25,170	Due from the Multiple Grant Fund to the General Fund for operating expenditures
33,908	Due from the Capital Projects Fund to the General Fund for operating expenditures
3,000	Due from the Hotel Motel Fund to the General Fund for tourism expenditures
56,631	Due from the SPLOST Fund to the General Fund for allocation of payroll expenditures
<u>801</u>	Due from the General Fund to the Cemetery Fund for operating expenditures
<u>\$ 119,510</u>	

Interfund balances are expected to be repaid within one year from the date of the financial statements.

B. TRANSFERS TO/FROM OTHER FUNDS

Transfers to/from other funds consist of the following at December 31, 2009:

<u>\$ 7,000</u>	Transfer from the Cemetery Fund to the General Fund for operating expenditures
-----------------	--

6. INTERGOVERNMENTAL RECEIVABLES

Balances due from other governments include the following:

<u>General Fund</u>	
Georgia Department of Revenue	<u>\$ 105,010</u>
<u>SPLOST Fund</u>	
Gilmer County, Georgia	<u>\$ 41,715</u>

7. FUND EQUITY

The Cemetery Fund receives revenue on trust funds established for specific family cemetery lots. This revenue is restricted for maintenance of these lots only. Any expenditure required to maintain the lots in excess of the interest income may be drawn from the principal. The cash held in this fund for these purposes consists of a demand deposit account totaling \$21,850, a certificate of deposit in the amount of \$12,811 and a receivable from the General Fund amounting to \$801. A corresponding amount of fund balance, totaling \$35,462, is also reserved.

The Confiscated Assets Fund receives property and cash from the forfeitures of property relating to drug arrests that are used to supplement police department expenditures for drug education and drug fighting purposes. Revenue is restricted for this purpose. The cash held in this fund for these purposes totaled \$2,932 and is held in a demand deposit account, with this same amount being reserved in fund balance.

Notes to Financial Statements (continued)

The Better Hometown Fund has been established to account for revenues received from various activities presented in the downtown area to promote tourism. The revenues are restricted for this purpose. The cash held for this purpose amounted to \$10,337. Fund balance in the same amount is also reserved.

The Multiple Grant Fund and Capital Projects Fund had deficit fund balances of \$4,240 and \$34,318 at December 31, 2009. The City expects to generate future revenues to offset these deficits. The City's General Fund has an adequate surplus to provide for the deficit fund balances in the event that sufficient revenues cannot be generated.

8. CHANGES IN LONG TERM DEBT

The City has entered into capital leases for the purchase of fixed assets. The following is a summary of capital leases for governmental-type activities at December 31, 2009:

Municipal Asset Management, fire truck lease payable in annual installments of \$53,143, including interest at 4.05%. Original balance of \$429,993, matures June 2015. \$ 278,142

United Community Bank, fire station lease payable in monthly installments of \$7,662, including interest at 4.19%. Original balance of \$750,000, matures December, 2017. 601,458
\$ 879,600

Future minimum payments under these capital leases consisted of the following at December 31, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 109,934	\$ 35,148	\$ 145,082
2011	114,534	30,548	145,082
2012	119,328	25,754	145,082
2013	124,321	20,761	145,082
2014	129,524	15,558	145,082
2015 -2017	<u>281,959</u>	<u>15,557</u>	<u>297,516</u>
	<u>\$ 879,600</u>	<u>\$ 143,326</u>	<u>\$ 1,022,926</u>

The following total represents capital assets purchased with the above capital leases and the related accumulated depreciation:

	<u>Asset</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Fire station building	\$ 1,718,212	\$ 68,728	\$ 1,649,484
Fire truck	<u>434,123</u>	<u>135,663</u>	<u>298,460</u>
	<u>\$ 2,152,335</u>	<u>\$ 204,391</u>	<u>\$ 1,947,944</u>

The following represents the changes in long-term debt from the previous year:

Governmental Activities:	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Capital leases	\$ 985,114	\$ -	\$ 105,514	\$ 879,600	\$ 109,934
Compensated absences	<u>15,438</u>	-	<u>12,129</u>	<u>3,309</u>	<u>3,309</u>
	<u>\$1,000,552</u>	<u>\$ -</u>	<u>\$ 117,643</u>	<u>\$ 882,909</u>	<u>\$ 113,243</u>

Notes to Financial Statements (continued)

Compensated absences are generally liquidated by the general fund and are therefore included in the above schedule.

9. HOTEL/MOTEL LODGING TAX

The City has levied a 5% lodging tax. During the year ended December 31, 2009, \$7,802 was collected. Per state law, \$3,121 of this was required to be spent to promote tourism, conventions, and trade shows. The City spent \$6,588 in the current year for these purposes, thereby conforming to the requirements of state law. This represented 84% of the amount collected. The City has complied with the provisions of Section 48-13-51 of the Official Code of Georgia.

10. DEFINED BENEFIT PENSION PLAN

Plan Description. The City's defined benefit pension plan, City of Ellijay Retirement Plan (the "Plan"), provides retirement disability, and death benefits to plan members and beneficiaries. The Plan is affiliated with the Georgia Municipal Employees Benefit System (GMEBS), an agent multiple-employer pension plan administered by the Georgia Municipal Association. The GMEBS assigns the authority to establish and amend the benefit provisions of the participating plans to the respective employer entities; for the Plan, the authority rests with the City. GMEBS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Georgia Municipal Association, Employee Benefit Section, 201 Pryor Street, SW, Atlanta, GA 30303.

At January 1, 2009, the most recent date of actuarial valuation, Plan membership consisted of:

Disabled employees, retirees, and beneficiaries currently receiving benefits	11
Terminated employees entitled to benefits not yet receiving them	11
Active employees	<u>23</u>
Total participants	45

Funding Policy. The City is required to contribute at an actuarially determined rate; the current rate is 4.0% of annual covered payroll. Employees become eligible after the first full calendar year of employment and become vested after seven years of service. Employees may not contribute to this plan. The contribution requirements of the City are established and may be amended by the GMEBS Board of Trustees.

Annual Pension Cost. The funding policy for the Plan is to contribute an amount equal to the recommended contribution as determined by the Plan's actuary. The recommended contribution was determined as part of the January 1, 2009 actuarial valuation. The chart below shows the annual pension cost for the current year and the prior two years along with the percentage actually contributed by the City.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Unaudited)

Fiscal Period	Annual Pension	Percentage of APC	Net Pension
<u>Ending</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
December 31, 2009	\$39,195	100%	\$ -
December 31, 2008	\$29,526	100%	\$ -
December 31, 2007	\$25,302	100%	\$ -

* Based on the results of the January 1, 2009 actuarial valuation.

Notes to Financial Statements (continued)

As of the most recent valuation date, January 1, 2009, the funded status of the Plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Surplus) AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a)] / (c)
1/1/2009	\$ 431,423	\$ 535,645	\$ 104,222	80.54 %	\$ 561,606	18.56 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2009.

The assumptions used in the January 1, 2009 actuarial valuation are as follows:

Actuarial Assumptions

Cost Method	Projected Unit Credit
Actuarial Asset Valuation Method	Determined by rolling forward the prior year's actuarial value of assets with contributions, disbursements, and expected return on investments plus 10% of investment gains (losses) during the prior 10 years
Assumed Rate of Return on Investments	8.0% (includes inflation of 5.0%)
Projected Salary Increases	5.5% (includes inflation of 5.0%)
Cost-of-Living Adjustment	None
Amortization Method	Level Percent of Pay (closed)
Remaining Amortization Period	20 years

11. LEGAL COMPLIANCE - BUDGETS

The applicable statutes of the State of Georgia require the City to operate under an annual balanced budget adopted by resolution. A budget is defined as being balanced when the sum of estimated net revenues and appropriated fund balance is equal to appropriations. Each fund's appropriated budget is prepared on a detailed line-item basis with revenues being budgeted by source and expenditures being budgeted by line-item. The legal level of control for the City's budget is at the departmental level. Budget revisions at this level are subject to final review by the Mayor and City Council.

Annual budgets are adopted for all governmental funds on a basis consistent with generally accepted accounting principles and on the same basis of accounting used by each fund to which the budget applies. All appropriations lapse at year end.

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and worker's compensation for which the City carries the following insurance coverage.

Risk Pools

The City has insurance coverage with a local agency. Insurance coverage and deductible options for property, casualty and crime under the policy are selected by the City's management based on the anticipated needs. The City is required to pay all premiums, applicable deductibles and assessments billed by the agency, as well as following loss reduction and prevention procedures established by the agency. The agency's responsibility includes paying claims, and representing the City in defense and settlement of claims. The agency's basis for establishing the liabilities for unpaid claims is established by an actuary. The City has not compiled a record of the claims paid up to the applicable deductible for the prior year or the current fiscal year. The City is unaware of any claims that the City is liable (up to the applicable deductible) which were outstanding and unpaid at December 31, 2009. No provisions have been made in the financial statements for the year ended December 31, 2009 for any estimate of potential unpaid claims.

The City has elected to be a member of the Georgia Municipal Association Workers' Compensation Self-Insurance Fund (GMAWCSIF), a risk management agency created under Georgia law. As a participant in the GMAWCSIF, the City has no legal obligation to pay its own workers' compensation determined on the basis of actuarial projections of losses. With payment of the City's annual contribution, the City has effectively transferred the risk and responsibility for payment of its workers' compensation claims. However, the enabling statute creating the GMAWCSIF permits the fund to levy an assessment upon its members to make up any deficiency the fund may have in surplus reserves. No amount has been recorded in the financial statements for this contingency, as management believes the likelihood for assessment is remote. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

There were no significant reductions of insurance coverage compared to the prior year. Settled claims have not exceeded the commercial excess coverage in any of the past three fiscal years.

13. JOINT VENTURE

The City, in conjunction with cities and counties in the fifteen (15) county Northwest Georgia area are members of the Northwest Georgia Regional Commission (NWGRC), formerly known as the North Georgia Regional Development Center, which merged with Coosa Valley Regional Development Center in 2009 as mandated by State law. Membership in a commission is automatic for each municipality and county in the State. The Official Code of Georgia Section 50-8-34 (Georgia Planning Act of 1989) provides for the organizational structure of regional development centers and was amended in 2008 to consolidate the existing centers into organizations called Regional Commissions (RCs). Each county and municipality in the State is required by law to pay minimum annual dues to the RC. The City paid their annual dues to the NWGRC for the year ended December 31, 2009. The RC Board membership includes the chief elected official of each municipality. The county board members and municipal board members from the same county elect one member of the Board who is a resident (but not an elected or appointed official or employee of the County or municipality) to serve as the non-public Board member from a County.

The Georgia Planning Act of 1989 (O.C.G.A. 50-8-34) defines RDCs (later transferred to RCs) "public agencies and instrumentalities of their members". Georgia laws also provide that the member governments are liable for any debts or obligations of an RC beyond its resources, (O.C.G.A. 50-8-39.1).

Complete financial statements of the NWGRC can be obtained directly from their office at the following address:

Northwest Georgia Regional Commission
503 West Waugh Street
Dalton, GA 30720

Notes to Financial Statements (concluded)

14. COMMITMENTS AND CONTINGENT LIABILITIES

There are no suits pending on unasserted claims that would result in material liabilities to the City. The City has entered into various agreements and contracts in the normal course of business. Such agreements do not give rise to assets or liabilities considered to be material at December 31, 2009.

15. PRIOR PERIOD ADJUSTMENT

The City has determined that a restatement is required to adjust amounts accrued as fines receivable, which resulted in an overstatement in the prior period. The following adjustment was needed to correct the beginning balance of fines receivable:

General Fund

Fund balance, December 31, 2008	\$ 677,416
Adjustment to reduce overstated fines receivable	<u>(145,939)</u>
Fund balance, December 31, 2008, restated	<u>\$ 531,477</u>

The prior period adjustment also impacted the previously reported balance of net assets of the governmental activities as follows:

Net assets, December 31, 2008	\$ 5,341,634
Adjustment to reduce overstated fines receivable	<u>(145,939)</u>
Net assets, December 31, 2008, restated	<u>\$ 5,195,695</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ELLIJAY, GEORGIA
SCHEDULE OF FUNDING PROGRESS FOR THE
CITY OF ELLIJAY RETIREMENT PLAN
For the Year Ended December 31, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Surplus) AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
01/01/09	\$ 431,423	\$ 535,645	\$ 104,222	80.54%	\$ 561,606	18.56%
01/01/08	\$ 511,788	\$ 494,159	\$ (17,629)	103.57%	\$ 561,108	0.00%
01/01/07	\$ 478,975	\$ 437,055	\$ (41,920)	109.59%	\$ 432,898	0.00%

Note: See assumptions used for these schedules disclosed in the notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ELLIJAY, GEORGIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

	Nonmajor Special Revenue Funds				
	Better Hometown Fund	Confiscated Assets	Cemetery Fund	Hotel Motel Fund	Total
<u>Assets</u>					
Cash	\$ 10,337	\$ 2,932	\$ 21,850	\$ 51,931	\$ 87,050
Certificates of deposit	-	-	12,811	-	12,811
Due from other funds	-	-	801	-	801
Other receivables	-	-	-	586	586
Total Assets	<u>\$ 10,337</u>	<u>\$ 2,932</u>	<u>\$ 35,462</u>	<u>\$ 52,517</u>	<u>\$ 101,248</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 3,588	\$ 3,588
Due from other funds	-	-	-	3,000	3,000
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,588</u>	<u>6,588</u>
Fund balances:					
Reserved for:					
Tourism	10,337	-	-	-	10,337
Public safety	-	2,932	-	-	2,932
Cemetery maintenance	-	-	35,462	-	35,462
Unreserved	-	-	-	45,929	45,929
Total Fund Balances	<u>10,337</u>	<u>2,932</u>	<u>35,462</u>	<u>45,929</u>	<u>94,660</u>
Total Liabilities and Fund Balances	<u>\$ 10,337</u>	<u>\$ 2,932</u>	<u>\$ 35,462</u>	<u>\$ 52,517</u>	<u>\$ 101,248</u>

CITY OF ELLIJAY, GEORGIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2009

	Nonmajor Special Revenue				
	Better Hometown Fund	Confiscated Assets	Cemetery Fund	Hotel Motel Fund	Total
Revenues:					
Sales and miscellaneous taxes	\$ -	\$ -	\$ -	\$ 7,802	\$ 7,802
Charges for services	-	-	1,800	-	1,800
Investment earnings	18	7	212	772	1,009
Miscellaneous	3,922	102	-	-	4,024
Total Revenues	3,940	109	2,012	8,574	14,635
Expenditures:					
Current:					
General government	-	-	409	-	409
Public safety	-	1,530	-	-	1,530
Housing and development	684	-	-	6,588	7,272
Total Expenditures	684	1,530	409	6,588	9,211
Excess (deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	3,256	(1,421)	1,603	1,986	5,424
Transfers in	-	-	-	-	-
Transfers out	-	-	(7,000)	-	(7,000)
Total Other Financing Sources and Uses	-	-	(7,000)	-	(7,000)
Net change in fund balances	3,256	(1,421)	(5,397)	1,986	(1,576)
Fund Balances - beginning	7,081	4,353	40,859	43,943	96,236
Fund Balances - ending	\$ 10,337	\$ 2,932	\$ 35,462	\$ 45,929	\$ 94,660

INTERNAL CONTROL AND COMPLIANCE SECTION

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Georgia Society of
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Al Hoyle, Mayor
and Members of City Council
City of Ellijay, Georgia

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Ellijay, Georgia, as of and for the year ended December 31, 2009, which collectively comprise the City of Ellijay, Georgia's basic financial statements and have issued our report thereon dated June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Ellijay, Georgia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Ellijay, Georgia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ellijay, Georgia's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting referenced at 2009-1 and 2008-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We also consider items 2009-1 and 2008-1 to be material weaknesses as described above.

Compliance and Other Matters

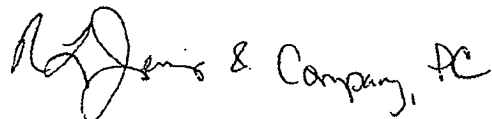
As part of obtaining reasonable assurance about whether City of Ellijay, Georgia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other

matters that are required to be reported under *Government Auditing Standards* as described in the accompanying Schedule of Findings and Responses at item 2009-2.

We noted certain matters that we reported to management of City of Ellijay, Georgia, in a separate letter dated June 30, 2010.

City of Ellijay, Georgia's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit City of Ellijay, Georgia's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "R. Jones & Company, PC". The signature is stylized, with the first letters of the first and last names being capitalized and prominent.

Ellijay, Georgia
June 30, 2010

CITY OF ELLIJAY, GEORGIA
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2009

Repeat finding from the prior year:

2008-1 Segregation of Duties

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Policies should be in place requiring the segregation of duties involving cash receipts, cash disbursements, payroll, general ledger and bank reconciliation.

Condition/Context: During the course of the audit, we noted that duties are not segregated as to prevent employees from being placed in a position to have absolute control over functions of cash receipts, disbursements, general ledger and similar duties.

Effect: Without segregation of duties within these functions, there is increased exposure that someone could intentionally or unintentionally misappropriate the City's assets.

Cause: The limited number of employees at City Hall and the resulting overlapping of duties cause segregation of duties to be difficult.

Recommendation: To the extent possible, duties should be segregated to maintain the best control system possible. We feel segregation of duties could be improved if different employees performed the separate duties of processing cash receipts and cash disbursements, and maintaining the general ledger. In situations where additional personnel are not available, an effort should be made to divide the duties of the available personnel in such a manner as to achieve the greatest possible segregation of duties. Increased Council involvement in the City's finances is also encouraged to strengthen internal controls. When these suggestions are implemented, the City's system of internal control will be enhanced, so that the risk of employee misappropriation of assets is reduced.

Response: The lack of segregation of duties is a recurring item that due to the limited number of employees is difficult to accomplish. Management plans to continue close involvement with the City's finances to aid in this matter.

Current year findings:

2009-1 General Ledger Maintenance

Criteria: The City is responsible for preparing annual financial statements in accordance with generally accepted accounting principles (GAAP). Recording transactions on an accrual basis (or where applicable, the modified accrual basis) is in accordance with GAAP and provides more meaningful financial information.

Condition/Context: Although the year-end financial statements are prepared on the appropriate accrual basis (modified accrual basis, where applicable), the City maintains its general ledger on a cash basis throughout the year. The City has relied on the external auditors in the past to provide the information for certain accrual entries, including taxes receivable, intergovernmental receivables, accounts receivable (billed and unbilled), accounts payable, accrued expenses, and deferred revenues.

SCHEDULE OF FINDINGS AND RESPONSES (concluded)

Effect: Failure to record accruals of revenue and expenditures (expenses) distorts the financial information that is provided to management and the City Council, and may lead to critical financial decisions being made on erroneous data.

Cause: There is no routine preparation or reconciliation of detailed account balances for the accrual adjusting entries in order to post to the appropriate general ledger accounts.

Recommendation: We realize that the procedure of maintaining the City's general ledger on the accrual/modified accrual basis throughout the year can be a time consuming task. Therefore, we suggest that the City implement a procedure in which books are kept on a cash basis, and accrual adjustments are made prior to year-end. Interim financial information could then be maintained on the cash basis to simplify the monthly reporting procedures. This practice would enable the City to enjoy the best features of both methods: properly adjusted accrual financial reporting for year-end accounting, and more easily produced interim financial statements for monthly reporting to the City Council.

Response: The City agrees with this finding and will implement the recording of accrual adjustments into the City's accounts at year-end.

2009-2 Budget Preparation

Criteria: The City is responsible for adopting an annual balanced budget for the each special revenue fund in accordance with Official Code of Georgia section 36-81-3.

Condition/Context: The City should have adopted annual balanced budgets for the Multiple Grant Fund, the Better Hometown Fund, the Confiscated Assets Fund, the Cemetery Fund and the Hotel Motel Fund in order to comply with State statutes.

Effect: The absence of adopted annual budgets for special revenue funds results in non-compliance with State law. In addition, the budgetary process is a management tool that is helpful in tracking revenues and expenditures and providing a basis for analysis of actual results to management's expectations.

Cause: Although the City adopted annual balanced budgets for the General Fund and the SPLOST Fund, due to limited activity in special revenue funds, budgets for these funds were not prepared.

Recommendation: In order to comply with State law and to better manage revenues and expenditures in each fund, we recommend that management prepared annual balanced budgets for all special revenue funds through the established budgetary process.

Response: The City agrees with this finding and will adopt annual balanced budgets for each special revenue fund in the future.

STATE SECTION

CITY OF ELLIJAY, GEORGIA
 SCHEDULE OF PROJECTS CONSTRUCTED WITH SPECIAL PURPOSE LOCAL OPTION SALES TAX
 For the Year Ended December 31, 2009

PROJECT	Estimated Cost		Expenditures			Estimated
	Original	Current	Prior	Current	Total	% of
			Years	Year		Completion
SPLOST 2009						
Road, street and bridge purposes, which purposes may include sidewalks and bicycle paths	\$ 2,363,550	\$ 2,363,550	\$ -	\$ 121,557	121,557	5%

Note A: Basis of Accounting ---This schedule has been prepared on the modified accrual basis of accounting.